



FEBRUARY 28, 2006

Dear Governor Bredesen and the People of the Great State of Tennessee:

I am pleased to present to you and our fellow Tennesseans this 31st Annual Report of the Department of Financial Institutions for 2005.

The Department regulates banks, credit unions, trust companies, business and industrial development corporations, industrial loan and thrift companies, insurance premium finance companies, mortgage lenders, brokers, servicers and originators; title pledge lenders, check cashers, deferred presentment services companies and money transmitters. We play a vital role in regulating and supporting the financial services industry in our state and ensuring that Tennessee financial institutions remain fiscally strong.

Overall, Tennessee financial institutions are well-capitalized, profitable and innovative in their diverse offerings of products and services. Although we continue to see some consolidation, total net assets continue to increase and the complexity and breadth of operations continue to grow. Specifically, I can report that the formation of de novo state banks remains very strong.

While the Department's chief mission is to ensure a safe and sound system of state-chartered institutions for Tennessee citizens, we also recognize that the economic development of our state is fueled by financial institutions. As a result, we remain responsive to those entities to create an environment that promotes economic vitality and fairly meets the diverse financial needs of our citizens. These steps, coupled with a proactive approach in educating consumers on how to use financial services properly, will help our citizens become financially healthy.

With rapidly growing changes in the industry and the regulatory environment, our role in the area of compliance continues to grow. In 2005, we took steps on two main fronts: working alongside legislators to bring the title pledge industry under the Department's authority and signing a Memorandum of Understanding with the Financial Crimes Enforcement Network (an agency with the U.S. Department of Treasury) and the Internal Revenue Service to better utilize resources in ensuring that the financial institutions we regulate are fulfilling the anti-money laundering requirements of the Bank Secrecy Act. As it relates to this issue, the Department recommended legislation for the 2006 Legislative Session concerning the disclosure of certain information to law enforcement agencies.

Throughout this report you will find additional information related to the work of this agency including the accomplishments of each operating Division, as well as the condition of the entities the Department regulates. I am confident that as you peruse this report you will learn that Tennessee remains a premier state for banking and financial services companies. This report is also recognition of the service of former Commissioner Kevin Lavender for this time period. On behalf of the employees of the Department, this report is respectfully submitted.

Sincerely,

Greg Gonzales
Acting Commissioner